



Director of
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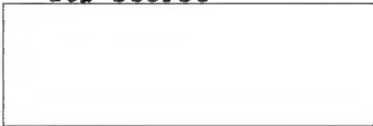
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ISRAEL-LEBANON: Shelling Continues

(Information as of 2300 EDT)

Israeli forces yesterday engaged in intermittent shelling of Palestinian positions in southwest Beirut. Muslim and PLO leaders apparently are trying to gain more political leverage by publicly emphasizing their solidarity in negotiations with the government.

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There were sporadic artillery exchanges directed south of the Sabra refugee camp. Press reports state target areas included Al Laylakah and Burj al Barajinah. An attack by Palestinian forces on an Israeli forward position near the airport was repulsed.

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The Israeli press reports that for "humanitarian reasons" the roadblock at the Galerie Semaan crossing has been turned over to the Phalange in order to allow regular food supplies to reach West Beirut. The official Lebanese radio alleges, however, that the Israeli forces continue to prevent food and medical supplies from reaching West Beirut and the southern suburbs.

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Israeli forces have been unable to prevent ambushes by PLO guerrillas remaining behind Israeli lines in southern Lebanon. The Israelis have cleared the roads, but the countryside belongs to the PLO-- particularly at night.

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Political Activity

Lebanese Muslims are putting more public emphasis on their differences with the government and Ambassador Habib. Prime Minister Wazzan yesterday publicly accused

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the Ambassador of backtracking on when to deploy the peacekeeping force. Wazzan wants the force deployed before the PLO evacuation begins. []

According to press reports, Wazzan has met with PLO leaders and with both leftist and conservative Muslim leaders to arrive at a common position on the current situation. Wazzan still refuses to cross into East Beirut through an Israeli checkpoint. []

Walid Junblat, the Druze leader of the National Movement--a coalition of leftist Muslim militias--reportedly said yesterday that the US was trying to force terms on the PLO. He averred the National Movement would fight to keep its arms. []

Comment: There are major differences between Muslim and Christian Lebanese on the political situation, but Muslim and PLO leaders recently have tried to strengthen their bargaining position. They have attempted to cultivate an image of closer cooperation and rallied behind Wazzan as the chief spokesman for both groups. []

Brezhnev Warning to the US

The Soviets yesterday publicized President Brezhnev's warning to President Reagan that if the US sends troops to Lebanon the USSR "would build its policy with due consideration." Brezhnev, according to TASS, also said he "hoped" Washington would restrain Israel and called on the US to end the fighting in Lebanon. []

Comment: This is the most authoritative statement to date on the situation in Lebanon. Like the TASS and Soviet Government statements issued last month, however, it does not specify what steps the USSR might take in response to the insertion of US troops. []

Moscow's immediate objective probably is to complicate US decisionmaking, highlight Soviet concern over developments in Lebanon, and place responsibility for further Israeli military action on the US. The decision to publicize the statement immediately after its delivery indicates the Soviets want to put their objections to a US military presence in Lebanon clearly on record. []

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ARGENTINA: Bignone's Position Improves

New signs of military unity and his new economic policies have strengthened President Bignone's political position for the next several months, but the gain may dissipate over the longer term.

According to a press report, the three military commanders last night agreed to reconstitute the junta and are expected to issue a communique soon.

Minister of Economy Pastore has devalued the peso by 27 percent, granted wage hikes to public sector workers, and reduced interest rates. Price controls will be used to restrain inflation. Pastore has yet to spell out specific actions to restructure the foreign debt.

The economic package has won initial approval from civilian politicians. Industrialists support Pastore's efforts to revive the economy, but labor leaders thus far have remained silent.

Comment: The new policies should create a brief economic upturn, and expanded exports will increase Argentina's substantial trade surplus. Wage hikes, military spending, and increased monetary expansion, however, probably will drive inflation to more than 200 percent by the end of 1982. This will gut any recovery by eroding real wages and investment incentives.

Moreover, increased government intervention in the economy will cause market distortions and increased inefficiency. The regime will become vulnerable to pressure from interest groups and probably will have to deal with renewed public protests.

//Although Bignone still faces serious disaffection in the military over a number of issues, the new economic policies were demanded by dissatisfied Army elements. Navy and Air Force commanders now appear more willing to work with the regime.//

If the new junta maintains cohesion, Bignone might be better able to deal with economic and political pressures, at least for the next several months.

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DOMINICAN REPUBLIC - US: Visit by President-Elect

President-elect Jorge Blanco, who is scheduled to visit Washington next week, has overcome most political problems since his election in May, but he will face several economic challenges when he assumes office on 16 August.

Jorge Blanco has allayed conservative fears that he would make radical shifts in policy, and coup rumors have faded. The public reaffirmation of support for the constitution following President Guzman's death last week further strengthens the likelihood of a smooth inauguration.

Substantial reductions in government expenditures have not reduced the budget deficit caused by declining trade taxes. Declining export earnings have caused a foreign exchange shortage.

Comment: //To avert a foreign exchange crisis in September when \$200 million in oil and debt service payments come due, Jorge Blanco probably will attempt to reschedule at least \$80 million in Venezuelan oil debt and seek similar arrangements with other creditors. His government will be forced to take the politically difficult step of requesting IMF conditional financing by the end of 1982. During his meetings with US officials, Jorge Blanco is likely to explore the financing possibilities of the Caribbean Basin Initiative and urge additional direct US assistance.//

The fiscal problems will require additional austerity measures that will block Jorge Blanco's plans for expanded social welfare programs, increase unemployment--already over 25 percent--and contribute to labor unrest. The opposition probably will use these issues and the IMF conditions to attack the government.

The military--depending on who is appointed to senior positions--may become jittery. Nevertheless, the ruling party's majority in both legislative houses will keep Jorge Blanco's position secure for the short term.

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NICARAGUA-US: Aid Attacked

Sandinista leaders have described US Congressional approval of direct aid to the Nicaraguan private sector as an attempt to disrupt the stability of the regime. A government spokesman said this week that foreign assistance funds would have to be dispersed through official channels. He warned the US Embassy and the private sector that any attempt to circumvent the government would violate Nicaraguan law. [REDACTED]

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Comment: The Sandinistas fear that direct US aid to private groups would undermine their authority and strengthen the opposition. Extensive Sandinista media coverage of this issue indicates the regime wants to link the private sector and domestic opposition with alleged US efforts to foment internal dissension. [REDACTED]

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SUDAN: Facing Possible Default

//Sudan has told foreign banks it is unable to pay \$22 million in interest due this week and a similar amount due in September, citing slow disbursement of aid promised in January and lagging export earnings. [REDACTED]

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Comment: //Commercial banks use the threat of default to put pressure on debtors, but the banks may for the first time follow through. This would drastically reduce Sudan's access to supplier credits to finance imports, forcing Khartoum to rely almost exclusively on official foreign donors and its own meager export earnings to finance essential commodity imports. The resulting commodity shortages could threaten the stability of the government.// [REDACTED]

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MALAYSIA: Anti-US Demonstrations

Two recent student demonstrations at the US Embassy protesting US policies in the Middle East may be followed by another today. Police did not break up the other demonstrations even though they are banned under security regulations. [REDACTED]

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Comment: The government's toleration of the protests reflects its need to cater to its Muslim constituency despite possible damage to relations with the US. It risks igniting communal tensions, however, should Muslim Malay demonstrators also vent their frustrations on the Chinese minority. [REDACTED]

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SPECIAL ANALYSES

PLO-SYRIA-JORDAN: Consequences of a PLO Move

//The relocation of the PLO to Syria would have a significant effect beyond Lebanon. The most serious consequences would be felt in Jordan, and, to a lesser extent, in Syria itself. King Hussein has expressed in clear and graphic terms his fears of a Palestinian presence on his northern border and under Syrian influence.//

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//Hussein sees a move to Syria as inexorably leading to a realization of the "Sharon plan" for Jordan--his overthrow and the remaking of Jordan as the Palestinian state. The King also believes radical Palestinians working for Syria will try to undermine his regime.//

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//Hussein expects PLO chief Arafat and other moderates eventually would escape President Assad's control and demand refuge in Jordan. Their interaction in Jordan with the country's already large Palestinian population could jeopardize internal security.//

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//The Jordanian ruler's greatest immediate concern is the likelihood the PLO, probably with Syrian connivance, would increase its attacks on Israel and the West Bank through Jordan. Hussein and other Jordanian leaders realize the Israelis would not need much of an excuse to take military action, even if they know the Jordanians are trying to stop Palestinian infiltration. Hussein knows these developments would be difficult, if not impossible, to control.//

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Syrian Concerns

//Assad also has reason to be concerned. Relations between Damascus and the PLO leadership have frequently been stormy, and they are likely to get worse.//

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//The Syrian leader would have to pay particular attention to signs of PLO collusion with his domestic opposition. The PLO has provided training and arms to the Muslim Brotherhood and other Syrian dissidents. Assad

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probably suspects Arafat would welcome a Sunni government less capable of exerting control over the Palestinian movement.// []

//Assad also would be concerned over acts by the Palestinians that might invite Israeli retaliation. He should, however, be able to prevent raids from Syria into Israel. The Israelis' knowledge of this has contributed to their willingness to go along with a relocation of the PLO.// []

//Damascus is likely to continue--and perhaps increase--its support of Palestinian terrorists. It will be careful, however, to mask any involvement in attacks against Israeli targets.// []

//Assad would derive some positive benefits from a PLO move to his country. For example, greater control over the Palestinian movement would strengthen his ability to "deliver" it in any international conference that might negotiate an Israeli-Syrian-Palestinian settlement.// []

//The President also would be in a better position to scuttle unwelcome initiatives such as the Fahd plan. In addition, Assad could use Palestinian terrorists and political activists to put pressure on other Arab regimes and to settle scores with opponents in exile.// []

Impact on the PLO

//No matter where the PLO ends up, Arafat will have trouble maintaining control over its political and military remnants and its more radical elements. An intrusive Syrian regime would add to his problems.// []

//To preserve his independence, Arafat will cast about for another base of political operations. He probably will examine the feasibility of a move to Jordan, Kuwait, Algeria or Egypt. He also may try to augment the large PLO presence in northern Lebanon to gain more room for maneuver from Damascus.// []

//In Syria, however, the Palestinians would have little choice but to abide by whatever physical arrangements Damascus dictates. They presumably would be sent to refugee camps where many of Syria's 250,000 Palestinians reside and where it would be easy for the Syrians to monitor their activities.// []

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IRAN-IRAQ: Zeroing In on Saddam Hussein

The downfall of Iraqi President Saddam Hussein has been one of Tehran's basic conditions for ending the war since early this spring when the tide of battle began to change in Iran's favor. The Iranians evidently had hoped that their succession of victories would lead to his ouster. Saddam's ability to survive those setbacks, however, appears to have convinced Tehran that only an invasion will topple him. Saddam recently has taken new measures to maintain his hold on power, but an invasion would greatly increase the pressures on him.

With the military momentum on their side, the Iranians probably calculate they will never have a better opportunity to oust Saddam. On Tuesday, the Minister of Defense stated an invasion was "inevitable." Tehran probably does not expect a popular uprising but does hope a coup will unseat Saddam and result in large reparations.

Without such a change, Iran would face the unacceptable prospect of a return to the status quo ante. That would be a hollow victory from Tehran's perspective, given its sacrifices in men, materiel and money.

Military Situation

//Al Basrah, Iraq's second-largest city with a population of over 1 million, is the most immediate objective of an invasion. It is within easy striking distance of four Iranian divisions reinforced with Revolutionary Guards--at least 100,000 troops. Since late June, these units have been preparing for new operations.

//The Iranians are not now in a position to carry out other major attacks across the border, although small diversionary attacks could be launched east of Al Amarah. The single Iranian division near Qasr-e Shirin, which dominates the main invasion route toward Baghdad, will be preoccupied for several weeks securing new positions on the border following Iraq's withdrawal in late June.

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//Iraq has heavily fortified the area between Al Basrah and the border since late May and has stationed major elements of six divisions--some 90,000 men--in the area. Although the morale of Iraqi troops has been low for months, they will be defending their own soil for the first time and probably will fight harder than they did in Iran. Nonetheless, the incompetence of Iraqi commanders makes it likely that Iraq would again squander its advantages and suffer a major defeat.//

Saddam's Position

The Iraqi President is running out of options in his effort to extricate his country from the war and stay in power. To forestall plots against him, Saddam late last month restructured and purged the civilian leadership, tightening his personal control and diluting the power of other party leaders.

At the same time, several Shias were given higher rank in the Baath Party, and Vice President Maruf--a Kurd--was appointed to the ruling Revolutionary Command Council. These moves clearly were aimed at quieting dissident elements.

Despite these changes, the most serious threat to Saddam--barring assassination--is likely to come from the top civilian and military leaders. They will move against him if he seems a liability to their continued dominance.

Popular uprisings seem less likely, even if the Iranians gain territory on the Iraqi side of the Shatt al Arab. Ayatollah Khomeini's appeals to Iraq's majority Shia Muslim community have produced little dissident activity.

Saddam, moreover, seems to retain his popularity.

Saddam repeatedly mingled with large crowds of people whose devotion to him appeared undiminished.

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